

SENATE FISCAL AGENCY MEMORANDUM

DATE: April 6, 2007

TO: Members of the Senate Environmental Quality Subcommittee

FROM: Jessica Runnels, Fiscal Analyst

RE: Mineral Well Regulatory Fees

As part of the FY 2007-08 Environmental Quality budget, the Governor proposed an increase to mineral well regulatory fees. The proposal would amend Part 625 (Mineral Wells) of the Natural Resources and Environmental Protection Act to increase the application and regulatory fees for mineral wells and subject test wells in the western Upper Peninsula to fees.

CONTENT

The current mineral well permit fees were established in 1999. The proposal would increase the fees for disposal wells (both brine and non-brine), storage wells, natural and artificial brine wells, individual test wells, and blanket test wells according to the schedule in Table 1. The proposal would change the name of application fees to drilling fees and change regulatory fees to operating fees. The fees would be adjusted annually by an amount to reflect the cumulative annual percentage change in the Detroit consumer price index (CPI) and rounded to the nearest dollar. The DEQ would have to notify the well owner of the fee assessment by February 1 of each year and payment would have to be postmarked no later than March 15 of each year. The DEQ would have to assess interest on all fee payments submitted after the due date. The late penalty would be an additional 0.75% of the payment due for each month or portion of month that the payment was past due. The proposal would require a conformance bond in place of a surety or security bond.

Table 1

MINERAL WELL DRILLING AND OPERATING FEES			
Proposed Drilling Fee			
<u>Well Type</u>	<u>Expected Permits/Year</u>	<u>Current Fee</u>	<u>Proposed Fee</u>
Disposal Well (Non-brine)	1	\$2,500	\$3,125
Disposal Well (Brine)	1	500	625
Storage	0	500	625
Natural Brine Well	3	500	625
Artificial Brine Well	2	500	625
Individual Test Well	5	500	625
Blanket Test Wells (less than 100 feet or in the western UP and deeper than 25 feet)	100		250 each
• 1 to 24 Wells		75	
• 25 to 49 Wells		150	
• 50 to 75 Wells		300	
• 76 to 200 wells		600	

MINERAL WELL DRILLING AND OPERATING FEES			
(continued)			
Proposed Annual Operating Fee			
<u>Well Type</u>	<u>Active Wells</u>	<u>Current Fee</u>	<u>Proposed Fee</u>
Disposal Well (Non-brine)	20	\$2,500	\$3,125
Disposal Well (Brine)	26	500	625
Storage	0	500	625
Natural Brine Well	70	500	625
Artificial Brine Well	48	500	625
Individual Test Well	15	500	625
Blanket Test Wells (less than 100 feet or in the western UP and deeper than 25 feet)	20		250 each
• 1 to 24 Wells		75	
• 25 to 49 Wells		150	
• 50 to 75 Wells		300	
• 76 to 200 wells		600	

Under the proposal, the supervisor of mineral wells could schedule a public hearing on a storage or disposal well only during the application or processing period of the permit. The running of the 20-day processing period would be tolled from the time the DEQ scheduled a public hearing until 30 days after the public hearing was held.

The proposal would revise the language prohibiting a permit from being issued to any owner who is in violation with Part 625 or any rule of the supervisor of mineral well, to state that a permit could not be issued to any owner in violation of Part 625 or any rule promulgated or order issued under Part 625.

Currently, a regulatory/operating fee is required for a well that is usable for its permitted purpose or has not been properly plugged. The proposal also would require that drilling was completed more than six months before the time the regulatory/operating fee was due.

Test Wells

The proposal would impose a new requirement for test well permits by requiring the owner to submit a survey or map showing where the test well would be, along with the permit application. All other permit applications currently require a survey to be submitted with the permit application.

The proposal would exempt test wells less than 25 feet deep from needing a permit or a conformance bond. The provisions pertaining to the prevention and correction of surface or underground waste would apply to test wells less than 25 feet deep in the same manner as to other mineral wells, even though a permit and bond would not be required.

Currently, test wells that are below the deepest freshwater stratum or greater than 250 feet in depth require an individual permit. Under the proposal, the depth would be shortened so that test wells of 100 feet or more into bedrock would require an individual permit. Test wells of 100 feet or less into bedrock would be subject to a blanket test well permit.

Currently, test wells in the western Upper Peninsula (defined in statute as "areas of the state where rocks of Precambrian age directly underlie unconsolidated surface deposits") or other

areas designated by the supervisor of mineral wells may be drilled without a permit. The proposal would limit these wells to 25 feet in total depth unless the owner or operator, at least 90 days before commencing drilling, provided a drilling plan, a map showing the proposed location of the test well, a drilling, casing, cementing, and plugging plan, and a fee for blanket test wells. A consolidated drilling plan for multiple wells that included the information and fee for each well could be submitted. The owner or operator would be required to notify the supervisor of mineral wells at least seven days before beginning to drill. The proposal would no longer allow the supervisor of mineral wells to designate areas where a permit for drilling was not required.

FISCAL IMPACT

The increased fees would generate total revenue of \$215,000, which is \$75,000 over the current annual revenue of \$140,000. The fee revenue is deposited into the Mineral Well Regulatory Fund. The Fund is used exclusively to implement and enforce Part 625 (Mineral Wells) of the Natural Resources and Environmental Protection Act.

There is no sunset on the current fees. If the proposal is not enacted, the program will continue operating with the current revenue, although program reductions or adjustments may be necessary to keep expenditures in line with revenue. No General Fund dollars or funding from other sources is appropriated to support the mineral well regulatory program.

This bill has not been introduced yet. If a bill is introduced, it could vary substantially from the Governor's proposal. Please contact me if you have questions.

c: Gary S. Olson, Director
Ellen Jeffries, Deputy Director
Bill Bowerman, Chief Analyst